AR61

Ascot

Ascot Energy Resources Ltd.

1997.annual.report.

Contents

Annual General Meeting

The Annual General Meeting of the Shareholders of Ascot Energy Resources Ltd. will be held at the Plus 15 level of its Corporate Office location of 500 - 4th Avenue SW, Calgary, Alberta on June 5, 1998 at 10:00 a.m.

Abbreviations

A.E.U.B.	Alberta Energy and Utility Board	D.S.T.	Drill Stem Test
A.P.O.	after payout	GORR	gross overriding royalty
ARTC	Alberta Royalty Tax Credits	MCF	thousand cubic feet
bbl/d	barrels per day	MCF/d	thousand cubic feet per day
bbl(s)	barrel(s)	MMCF	million cubic feet
BCF	billion cubic feet	MMCF/d	million cubic feet per day
BOE	barrel of oil equivalent	NGL(s)	natural gas liquid(s)
bopd	barrels of oil per day	NPV	net present value
B.P.O.	before payout	W.I.	working interest

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

Letter to the Shareholders

Ascot Energy Resources Ltd. achieved record production, revenues, cash flow and net income in 1997. A highly successful drilling program, focused on our key property of Watelet in Central Alberta, helped boost daily production by 360% to 92 boe per day from 20 boe per day in 1996. At year-end 1997, Ascot was producing 160 boe per day, and is currently producing 200 boe per day.

In 1997, Ascot invested over $1.6 million of capital in property acquisitions, facility modifications, workovers/recompletions and drilling. These investments were funded through the combination of cash flow and portions of the 1996 and 1997 flow-through share issues.

Highlights from 1997 included the following:

- Revenues rose 643% to $563,064, compared to $75,739 in 1996 as a result of significantly higher oil and gas sales;
- Cash flow was $237,845 or 1.4 cents per share, compared to a net cash outflow in 1996 of $164,895;
- The Company recorded positive net income of $71,111, compared to a loss in 1996 of $179,496;
- As a result of our drilling success in 1997, proven and probable reserves gained 25% to 1,020 mboe, compared to 813 mboe in 1996.

In 1997, the Company invested a significant amount of capital and energy to build on our exploration discovery in our Watelet core area, to strengthen our balance sheet and to increase our prospect inventory. As a result, Ascot was well positioned to rapidly grow its production and reserve base during the 1997/1998 winter drilling season. To partially finance the winter drilling program, Ascot raised $1,330,100 from a private placement in the form of a flow-through share issue priced at $0.35 per share.

Ascot, as operator, drilled four successful Ellerslie oil wells in Watelet with an average working interest of 30%, and a successful 40% working-interest Basal Quartz gas well in the Mikwan area, for a 100% success rate. Two of these oil wells were drilled in December, 1997, while the remaining three were drilled during the first quarter of 1998.

In addition, two more wells were drilled on a farm-out basis on Ascot lands in 1997, at no cost to the Company. The first well, a horizontal re-drill into the Keg River formation at Rainbow Lake, has been suspended, while the other, in the West Pembina area, was dry and abandoned.

Growth Factors

At Ascot, growth is a team effort that reflects the combined strength of our geological, geophysical and engineering group, which will allow Ascot to grow through the drill bit.

Our growth strategy is summarized as follows:

- Use management's extensive exploration experience to generate high quality prospects. Ascot evaluates every prospect, based on its own technical merit. To that end, all projects undergo rigorous technical scrutiny using all the latest available technology, while constantly adhering to sound fundamental geologic principles, before they are subjected to our strict economic tests. Only those projects that satisfy both technical and economic criteria are selected.
- Ascot maintains a conservative balance sheet by using cash flow and equity to finance higher risk exploration expenditures and by using debt to finance lower risk facilities expenditures.
- Establish industry partnerships to develop higher risk prospects. In order to spread the risk on higher risk projects, Ascot seeks partners to share the drilling costs. Although this limits the ultimate reward to Ascot, it offsets the level of exposure on a given exploration project.
- Maintain a working interest that is indirectly proportional to the risk/reward criteria of the project, with a minimum 25% working interest and a maximum financial risk of $250,000. Due to the great deal of effort that Ascot expends in evaluating and generating prospects, it believes that selected projects should have a substantial impact on the Company if successful, while maintaining a comfortable financial risk in the event of failure.

Industry Outlook

For several reasons, Ascot shares the prevailing industry view that the price of natural gas will continue to improve. Various pipeline projects planned or underway will give Canadian producers greater access to the Midwest and Northeastern U.S. export markets. This is expected to put upward pressure on pricing in domestic spot markets, which will help improve cash flow for emerging and junior producers such as Ascot.

We anticipate that oil prices will continue to show volatility over the immediate term, following the significant decline in prices over the last few months. We are encouraged, however, that there may be some improvement in oil prices by next winter.

Ascot is well positioned to weather the downward pressure on oil prices due to our efforts in streamlining and improving operating efficiencies in our Watelet core area, where our 1997 operating costs were $4.20 per boe. This operating cost is expected to drop significantly in 1998 with the added production from our winter drilling success and our continued efforts at expanding the play in the area. This reflects our strategy of operating our core areas whenever possible, by maintaining high working interests. This allows us to control the cost and pace of development. At the same time, the current weakness in oil prices may present acquisition opportunities for young companies like Ascot, which have strong balance sheets. Because Ascot is debt-free, it will be able to take advantage of strategic acquisition opportunities in a more realistic pricing environment.

1998 Forecasts

Ascot's target exit rate for 1998 is 400 boe per day, balanced between light oil and natural gas. We are confident we can achieve this level through the efforts of our strong, multi-dimensional technical team working primarily through the drill bit to develop step-out prospects currently in the Company's inventory. In addition to these step-out opportunities, the Company is now in a position to participate in higher impact type plays and is evaluating such prospects in its inventory with the view of pursuing them during the second half of 1998. Ascot's current production mix is 65% oil, none of which is heavy.

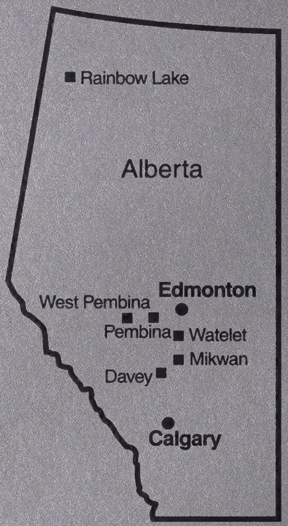
Ascot's 1998 capital expenditure will be funded through cash on hand, cash flow and existing credit facilities. We do not presently anticipate raising funds on the equity markets in order to avoid dilution of share value to our existing shareholders.

Finally, I would like to thank our shareholders for their support and loyalty, the directors of the Company for their counsel and guidance, and our staff and colleagues for their continued dedication to the Company.

On behalf of the Board of Directors,

D R Gieck

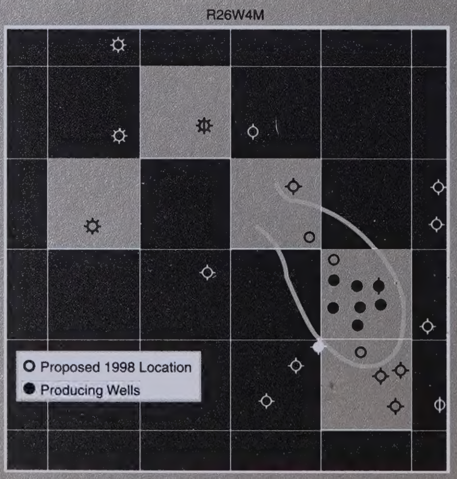
Dennis Gieck
President
April 16, 1998



Watelet

In 1997, Ascot continued to build on the success of its December, 1996 discovery well at Watelet, which encountered oil and gas in the Ellerslie formation at about 4,900 feet. Watelet has many of the criteria we look for in our key properties: operatorship, infrastructure, potential for lower risk development drilling, and long life reserves. Ascot increased its land holdings in the area to five sections in 1997, with working interests ranging from 14.25% to 60%.

Net production from this property has steadily increased from 63 boe per day in March, 1997 to 140 boe per day in December, 1997. Current net production to Ascot is about 180 boe per day.



Watelet Area

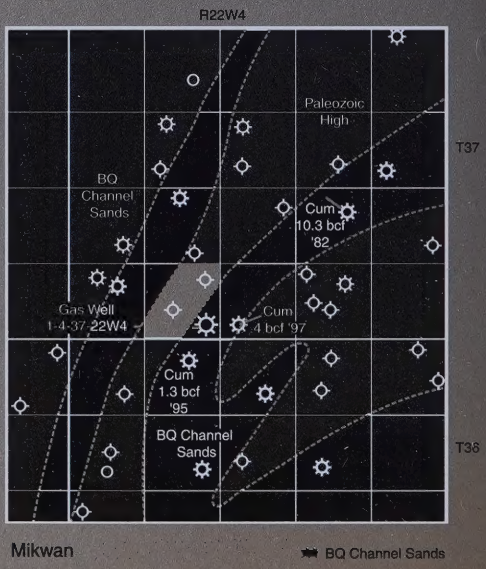
Ascot owns a 30% W.I. in a gas plant, pipelines and battery facilities located in the east-half of section 14. In 1997, the Company re-routed its facility's tie-in to NUL's Home Glen pipeline in order to eliminate end-user restrictions on our associated gas sales. In addition, Ascot applied for and received approval from the AEUB for downspacing three-quarters of section 14 to 40-acre spacing. This allowed the Company to proceed with four additional Ellerslie step-out wells in 1997 and the first quarter of 1998, all of which were successful.

The Watelet area also has gas production from the shallower Belly River formation. Ascot re-equipped a suspended Belly River gas well at 7-28 and resumed production in October, 1997 at 200 mcf per day. The Company has 14.25% W.I. in that well.

In 1998, Ascot will continue to expand the play at Watelet and will drill at least three more wells following spring break-up.

Mikwan

Ascot owns a 40% W.I. and operates this 640 acre block. This block straddles a highly productive Basal Quartz channel fairway where individual wells have produced from 2 bcf to in excess of 10 bcf. A 2-D seismic program was shot in late 1997 to identify the presence of this channel. Based on our seismic



Mikwan

interpretation the 1-4-37-22W4 well was drilled to a depth of 5,000 feet in March, 1998 and encountered 15 feet of net gas pay in the Basal Quartz. The zone tested at a rate of 800 mcf per day on DST and is expected to be placed on stream immediately after spring break-up at rates between 800 mcf per day and 1.1 mmcf per day.

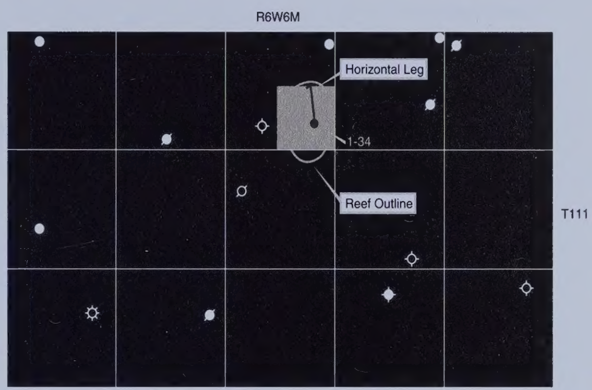
Rainbow

Ascot farmed out its 100% W.I. in a shut-in Keg River oil well during 1997. The farmee drilled a 350-metre, two-legged horizontal well in the Keg River reef, which encountered porous reef throughout most of the section. Although the well tested at an initial rate of 70 bbls per day it quickly declined to 15 bbls per day and the well was shut-in.

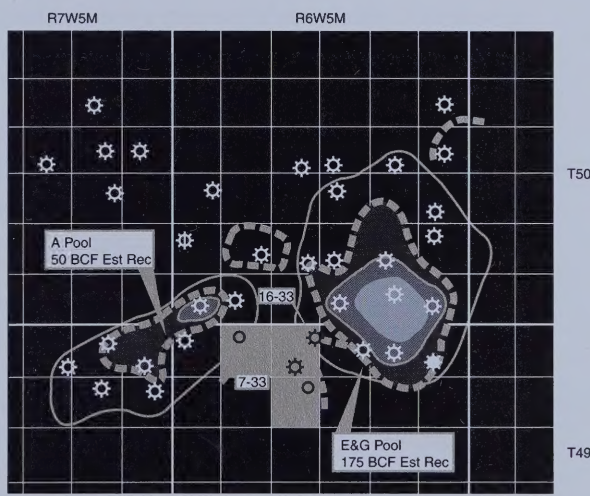
While the operator is considering a stimulation program, Ascot is attempting to regain operatorship and return the well to its pre-drill production rate of 20 bbls per day to Ascot.

Pembina

At Pembina, the Company farmed in, with a 45% W.I., on two and one-half sections of land in 1996 by drilling the 16-33-49-6W5, a Glauconitic test well. An existing shut-in gas well at 7-33, drilled in 1978 and completed in 1988 had tested 1 mmcf per day and 30 bbls of water from the Glauconitic zone. The farm-in well at 16-33 tested gas at up to 750 mcf per day and 20 bbls of oil, with 30 bbls of water following fracture stimulation of the Glauconitic sand. Pressure data indicated that the reservoir was connected to the E&G Glauconitic gas pool to the northeast and separate from the gas accumulation at 7-33. Both wells were tied-in, but gas did not flow after the Company attempted various production schemes without success. Ascot is investigating other possibilities to bring these wells on stream in 1998.



Rainbow Lake Area



Pembina Area

Potential Locations

Key Properties

West Pembina

Ascot farmed out its 100% interest in one section of land on this Belly River channel play. In 1997 a 5,000 foot Basal Belly River test was drilled at 7-14-49-12W5 by an industry partner, at no cost to Ascot. The well was dry and abandoned.

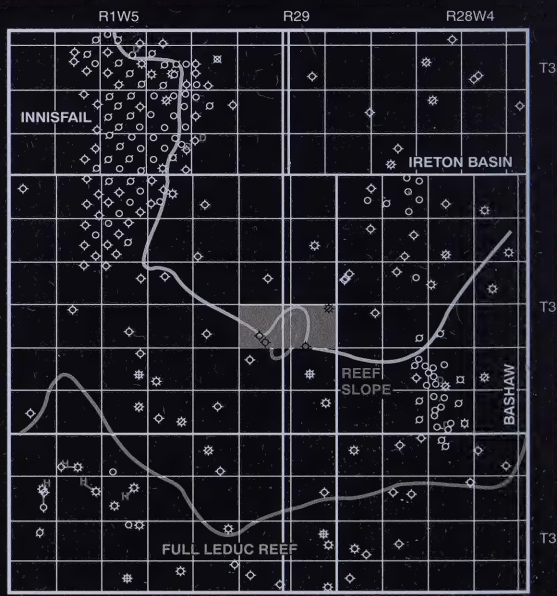
In the first quarter of 1998 Ascot farmed out its interest in the south-half of section 3-49-12W5 via a seismic option. If the seismic option is exercised, a Basal Belly River test will be drilled by mid-1998.

Davey

This is a new high impact prospect area for Ascot in which the Company has a 25% non-operated W.I. The Davey Leduc prospect is located in an embayment of the Ireton basin between the D-3 reef mass at Innisfail to the west and the Bashaw reef complex to the east. The prospect was identified by 2-D seismic as an additional Leduc build-up between two existing wells on the Leduc reef slope.

Interpretation to date indicates the anomaly may be an isolated reef mass from the main carbonate complex. The operator shall conduct a 3-D seismic program after spring break-up. If the lead is confirmed, an 8,500 foot Leduc test is planned by October 1, 1998.

West Pembina Area



Davey Area

Production and Revenue

The following table summarizes our 1997 production, revenue and cash flow compared to the 1996 results:

Production		1997	1996	Change
Oil (bbls/d)		57	–	N/A
Gas (mcf/d)		350	200	+ 75%
TOTAL (boed)		92	20	+ 360%
Revenue		$ 563,064	$ 75,739	+ 643%
Cash Flow	Gross	$ 237,845	$ (164,895)	+ 244%
	¢ per share	1.4	(1.6)	+ 187%
Earnings (loss)	Gross	$ 71,111	$ (179,496)	+ 140%
	¢ per share	0.44	(1.8)	+ 122%

Ascot recorded over a four-fold production gain over 1996, resulting in positive earnings for the first time in the Company's history. The production steadily increased throughout 1997 with year-end exit rates of 86 bbls per day and 754 mcf per day. This was less than our targeted exit rate of 220 boe per day due to the lack of success in placing the Pembina gas wells on production. The average oil price received in 1997 was $23.88 per bbl and the average price for gas was $2.21 per mcf.

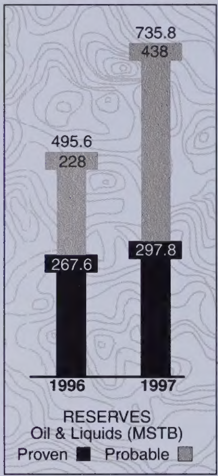
Expenses

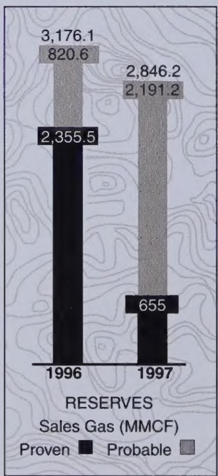
The Company paid $195,067 in both crown and gross overriding royalties in 1997 and received $54,833 in Alberta Royalty Tax Credits. Our production operating expenses for the year were $183,062, or $5.45 per boe. In our Watelet core area, operating costs were $4.20 per boe in 1997. This is expected to decline again in 1998 with anticipated production gains.

General and administrative expenses for 1997 were $142,157, or $4.23 per boe. The Company has three full-time employees as of July 1, 1997 and employs qualified consultants on an as-needed basis. The Company capitalized $247,336 in G & A expenses in 1997, compared with $76,025 a year earlier, as a result of the significant increase in exploration and production activities and expenses.

Depletion and Depreciation

Ascot reported $166,734, in depletion and depreciation charges in 1997, which represented more than a ten-fold increase over 1996 charges. This is attributable to the 360% increase in daily production. The proven reserve depletion rate for 1997 is 9.4%, or $4.00 per boe.





Reserves and Asset Value

As of December 31, 1997 the Company's working interest reserves, as evaluated by Martin Petroleum & Associates, are summarized in the following table:

	Oil & NGL's (Mbbls)	Sales Gas (Mmcf)
Total proved	297.8	655
Total proved plus probable	735.8	2,846.20

Our total oil and liquids reserves increased by 48% over 1996 figures due to our increased production in the Watelet area, while the total gas reserves dropped by about 10%. The Pembina gas reserves, booked in 1996 on a proven basis, were revised as probable reserves in 1997 due to the difficulties encountered in producing these wells. The Company is examining several options to improve well productivity and recapture these reserves.

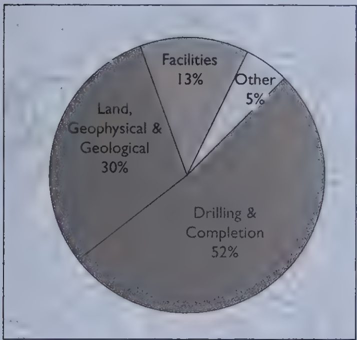
In 1997, Ascot's finding and development costs for proven and probable reserve additions were a highly respectable $3.69 per boe. Our average two-year finding cost is even lower at $2.15 per boe. Because exploration cycles typically span two fiscal years, the Company believes that a two or three year average finding and development cost is more realistic when calculating reserve addition costs. Reserves tapped by the Pembina gas wells and the 6-14 Watelet discovery well, for example, were booked in 1996, while the actual completion, equipping and tie-in costs were incurred in 1997.

The discounted net present value of future cash flows, including Alberta Royalty Tax Credits from total proved and probable reserves for 1997 and 1996 are summarized below.

	Present value (M $)			(¢) Per share		
Discount factor	10%	12%	15%	10%	12%	15%
1997	8,673	7,938	7,034	42¢	38¢	34¢
1996	6,034	5,490	4,766	36¢	33¢	29¢

Liquidity and Capital Program

In 1997, Ascot had a capital expenditure program of $1,619,582, which was allocated as follows:



Drilling & Completion	$	843,827
Land, Geophysical and Geological		485,213
Facilities		208,525
Other (Office furniture, leasehold improvements, etc.)		82,017
Total	$	1,619,582

This 1997 capital program was funded from the proceeds raised by the flow-through share issues in 1996 and 1997.

At year end 1997, Ascot had working capital of $ 703,975, and 20,768,386 shares outstanding, compared to 16,668,100 shares outstanding at year-end 1996.

Business Risks

The exploration for and production of oil and natural gas reserves, as well as the marketability and price of these products will be affected by numerous factors beyond the Company's control, including worldwide economic and political events. Ascot will continue to monitor and adhere to all regulations affecting our operations. The Company attempts to minimize the technical risks associated with our exploration and production by employing a team of highly skilled and experienced professionals who utilize state-of-the-art technology in conducting geophysical, geological and engineering analyses prior to the commencement of drilling of any well.

The outlook for continued growth and prosperity at Ascot is very bright. The Company anticipates its capital expenditure program during 1998 to be higher than in prior years, which will generate increasing levels of cash flow for further reinvestment. Ascot will grow primarily through the drill bit in 1998, as the Company benefits from the capabilities of its technical team.

The Company will continue to be guided by its business philosophy and prudent fiscal policies, which over the longer term will help create value for its shareholders.

Year 2000

Ascot is currently assessing the impact of the Year 2000 on its information and operating systems. A Year 2000 problem can arise from computer systems misinterpreting the December 31, 1999 change of date to January 1,2000. The concern has been outlined in a notice issued by the Canadian Securities Administration on January 30, 1998 which has directed that all public companies include disclosure in the annual report explaining the risks and uncertainties arising from the Year 2000 issue and how these risks and uncertainties are being managed.

Ascot has completed a preliminary assessment regarding the risk of system failure and has determined that the Company is at low risk because it is not dependent on highly complex information or operating systems. Nonetheless, we have contacted each of our major purchasers and suppliers, financial institution and appropriate government agencies regarding their plans for dealing with the Year 2000 and are awaiting their response. Additionally, Ascot is assured by its suppliers that all of its internal software and hardware are year 2000 compliant.

the Shareholders of
Ascot Energy Resources Ltd.:

We have audited the balance sheets of Ascot Energy Resources Ltd. as at December 31, 1997 and 1996 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants
Calgary, Alberta
March 16, 1998

Balance Sheets

December 31, 1997 and 1996

	1997 $	1996 $
ASSETS		
CURRENT		
Cash	**935,473**	1,415,542
Accounts receivable and other assets	**1,043,623**	295,679
	1,979,096	1,711,221
Property and equipment (Note 2)	**1,526,663**	537,902
	3,505,759	2,249,123
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**1,275,121**	985,609
Provision for site restoration	**20,258**	8,313
	1,295,379	993,922
SHAREHOLDERS' EQUITY		
Share capital (Note 3)	**4,723,565**	3,839,497
Deficit	**(2,513,185)**	(2,584,296)
	2,210,380	1,255,201
	3,505,759	2,249,123

APPROVED BY THE BOARD

D R Gisk Director

Director

Statements of Operations and Deficit

Years Ended December 31, 1997 and 1996

	1997 $	1996 $
REVENUE		
Petroleum and natural gas sales	**702,931**	91,977
Royalties, net of ARTC	**(140,234)**	(16,265)
Interest	**367**	27
	563,064	75,739
EXPENSES		
Production	**183,062**	74,620
Depletion and depreciation	**166,734**	14,601
General and administrative	**142,157**	166,014
	491,953	255,235
NET INCOME (LOSS)	**71,111**	(179,496)
DEFICIT, BEGINNING OF YEAR	**(2,584,296)**	(2,404,800)
DEFICIT, END OF YEAR	**(2,513,185)**	(2,584,296)
INCOME (LOSS) PER SHARE	**0.004**	(0.018)

Statements of Changes in Financial Position

Years Ended December 31, 1997 and 1996

	1997 $	1996 $
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income (loss)	**71,111**	(179,496)
Item not affecting cash		
Depletion and depreciation	**166,734**	14,601
Funds from operations	**237,845**	(164,895)
Changes in non-cash operating working capital items	**(458,432)**	(3,640)
	(220,587)	(168,535)
FINANCING		
Issue of common shares for cash	**1,360,100**	1,085,830
Share issue costs	**–**	(6,435)
	1,360,100	1,079,395
INVESTING		
Property and equipment	**(1,619,582)**	(570,321)
Disposition of property	**–**	900,267
	(1,619,582)	329,946
NET CASH INFLOW (OUTFLOW)	**(480,069)**	1,240,806
CASH POSITION, BEGINNING OF YEAR	**1,415,542**	174,736
CASH POSITION, END OF YEAR	**935,473**	1,415,542
FUNDS FROM OPERATIONS PER SHARE	**0.014**	(0.016)

1. SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

Petroleum and natural gas operations The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, geological and geophysical expenditures, well equipment, and certain other overhead expenditures related to exploration.

Capitalized costs, including tangible well equipment, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by management and reviewed by an independent reserve engineer.

Gains or losses on the sale or disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a major revision of depletion rates and which would result in a material gain or loss.

The Company applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Company's year end, less administrative, financing, site restoration and abandonment, and income tax expenses, plus the costs of unproven properties. Any reduction in value as a result of the ceiling test is charged to operations as an element of depletion and depreciation expense.

Depletion and depreciation Petroleum and natural gas properties and related equipment, excluding undeveloped properties, are depleted and depreciated using the unit-of-production method based on estimated proven reserves before deduction of royalties and after conversion to units of common measure based on a ratio of six thousand cubic feet of natural gas to one barrel of oil.

Joint ventures Substantially all of the Company's exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

Office equipment and furniture Leasehold improvements are recorded at cost and depreciated over the term of the lease.

Office equipment and furniture are recorded at cost and depreciated on the declining-balance basis at rates of 20% to 30% per year.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Flow-through shares The Company has issued flow-through shares and special warrants for the purchases of flow-through shares. Under these financing agreements, shares are issued at a fixed price and the resultant proceeds are used to fund exploration and development work within a defined time period. The exploration and development expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated renounced tax deductions when the related costs are incurred.

Future site restoration and abandonment costs The Company has made a provision for future site restoration and abandonment costs, based on the unit-of-production method. The provision is included in depletion and depreciation in the statements of operations and deficit. The total future liability is estimated to be $135,068.

2. PROPERTY AND EQUIPMENT

	1997		
	Cost $	Accumulated Depletion and Depreciation $	**Net Book Value $**
Petroleum and natural gas assets	4,066,253	2,627,556	**1,438,697**
Office equipment and furniture	92,997	30,789	**62,208**
Leasehold improvements	32,198	6,440	**25,758**
	4,191,448	2,664,785	1,526,663

	1996		
	Cost $	Accumulated Depletion and Depreciation $	**Net Book Value $**
Petroleum and natural gas assets	3,002,173	2,494,889	**507,284**
Office equipment and furniture	45,725	15,107	**30,618**
	3,047,898	2,509,996	**537,902**

The Company has capitalized, as part of petroleum and natural gas assets, general and administrative expenses amounting to $247,336 for the year ended December 31, 1997 (1996 - $76,025).

During 1996, the Company disposed of certain of its properties to a joint venture participant for $150,000 cash, certain properties of the other company, plus satisfaction of amounts owing to that company aggregating $750,627 at that date. The proceeds of this sale were credited to petroleum and natural gas assets.

Petroleum and natural gas assets are presented net of $1,338,434 (1996 - $862,402) of benefits relating to income tax deductions which have been renounced under flow-through share arrangements (Note 3).

3. SHARE CAPITAL

Authorized

Unlimited number of Class A common voting shares
Unlimited number of preferred shares, issuable in series

The directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attached to the preferred shares.

	Number of Shares	**Amount $**
Issued		
Balance December 31, 1995	9,833,100	2,760,102
Issued flow-through shares for cash	6,835,000	1,367,000
Shares issue costs	-	(6,435)
Tax benefit renounced to shareholders	-	(281,170)
Balance December 31, 1996	16,668,100	3,839,497
Issued on exercise of stock options	300,000	30,000
Issued flow-through shares for cash	3,800,286	1,330,100
Tax benefit renounced to shareholders	-	(476,032)
Balance December 31, 1997	20,768,386	4,723,565

The basic income (loss) per share and funds from operations per share figures have been calculated using 16,920,440 (1996 - 10,170,168) weighted average number of shares.

Stock options At December 31, 1997, there were 710,000 options outstanding to purchase common shares for consideration of $0.10 to $0.25 per share. The options are exercisable at various dates to 2001.

4. CREDIT FACILITIES

At December 31, 1997, the Company has available a revolving demand loan credit facility to a maximum of $600,000, with availability of the facility reducing by $25,000 per month, and a non-revolving acquisition and development demand loan credit facility to a maximum of $500,000.

5. INCOME TAXES

Deferred income taxes related to net income for the year have been offset by deferred income tax recoveries from prior years.

Petroleum and natural gas assets with a cost of approximately $1,676,000 at December 31, 1997 (1996 - $ 1,085,000) have no cost base for income tax purposes.

6. COMMITMENTS

The Company has an obligation to make the following future minimum lease payments on various operating leases.

	$
1998	60,695
1999	60,695
2000	60,695
2001	60,695
2002	60,695

7. FINANCIAL INSTRUMENTS

The fair value of the Company's cash, accounts receivable, other assets, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

Board of Directors

Dennis Gieck

Mr. Gieck is President, C.E.O. and Chairman of the Board of the Corporation. Mr. Gieck has more than 25 years experience in the oil and gas industry. During the first 14 years of his career, Mr. Gieck was employed by Amoco Canada and subsequent to this he was president of Strand Oil and Gas Ltd. During the last six years, Mr. Gieck played a key role in founding three private oil and gas companies which have demonstrated dramatic growth in production and asset value. Mr. Gieck is a graduate of the University of Alberta with a Bsc. in Engineering.

Joseph W. Worobec

Mr. Worobec is a registered professional geologist (APEGGA) with a B.Sc. from the University of Alberta. Mr. Worobec's career in the petroleum industry began as an oil scout and a wellsite geologist with Hudson Bay Oil and Gas. Since that time he founded Strand Oil and Gas Ltd. and has held positions with companies ranging from private oil and gas firms to multinational corporations. Mr. Worobec has been a consulting geologist for the past ten years.

Bezo Khadr

Mr. Khadr graduated from the University of Calgary with a Ph.D. in Electrical Engineering. Mr. Khadr commenced his oil and gas career with Amoco Canada as a geophysicist where he remained for four years, progressing to the position of staff geophysicist. He subsequently joined Strand Oil and Gas Ltd. as chief geophysicist and held this position for six years. Since 1987 Mr. Khadr has maintained a successful practice in geophysical consulting. Mr. Khadr was instrumental in the discovery of numerous oil and gas pools throughout western Canada.

Marcel Tremblay

Mr. Tremblay is President, Chairman of the Board and Chief Executive Officer of Enerplus. Mr. Tremblay has 34 years of experience in the inverstment industry and the oil and gas industry. Prior to 1985, he was President of Royal Trust Energy Corporation ("RTEC") and was its senior officer since its inception in 1980. Prior to the formation to RTEC, Mr. Tremblay served as coordinator of all investment activities related to the energy sector within the Royal Trust Group. Prior to joining Royal Trust in November 1973, he was Partner, Director and Chief Financial officer of Maison Placements Canada Inc., a Canadian brokerage firm.

Amin Abdel-kader

Mr. Abdel-kader graduated from Alexandria University with a Masters degree in Geophysics. He was engaged in scientific research when employed by Amoco Canada in 1966. Mr. Abdel-kader has over thirty years experience ranging from exploration to management. When he retired from Amoco Canada in 1996 he held the position of Exploration Manager, Foothills Region. Mr. Abdel-kader provides domestic and international exploration consulting services.

J. Michael Lavery

Mr. Lavery graduated from Bishop's University in 1965 with a B.A. (Economics). He is a Chartered Accountant who practiced tax with a major accounting firm until 1995 when he became Secretary Treasurer with Comcare Limited. He has a background in oil and gas taxation and is a Director of two other companies in the oil and gas industry. Mr. Lavery is currently Vice President, Finance, of WINROC Corporation.

Officers

Dennis Gieck
President, Chief Executive Officer & Chairman of the Board

Bill Khouri
Vice President - Exploration

Joe Worobec
Vice President - Land

Bankers

National Bank of Canada
Calgary, Alberta

Auditors

Deloitte & Touche
Calgary, Alberta

Solicitors

Donahue Powers & Wells

Registrar & Transfer Agent

CIBC Mellon
Calgary, Alberta

Stock Exchange Listing

Alberta Stock Exchange
Trading symbol "AER"

Head Office

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Calgary, Alberta T2P 2V6
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